

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name SANILAC DISTRICT LIBRARY	County SANILAC
Fiscal Year End DECEMBER 31, 2006	Opinion Date MAY 15, 2007	Date Audit Report Submitted to State JUNE 22, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No significant issues noted	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BRINING & NARTKER, P.C.		Telephone Number 810 648 4931	
Street Address 47 AUSTIN STREET P.O. BOX 348		City SANDUSKY	State MI
Authorizing CPA Signature 		Printed Name JOE NARTKER, CPA	Zip 48471
		License Number 11752	

**SANILAC DISTRICT LIBRARY
PORT SANILAC, MICHIGAN**

**FINANCIAL REPORT
DECEMBER 31, 2006**

**BRINING & NARTKER, P.C.
Certified Public Accountants**

**SANILAC DISTRICT LIBRARY
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Sanilac District Library
Port Sanilac, Michigan

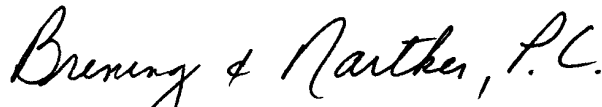
Members of the Board:

We have audited the accompanying basic financial statements of Sanilac District Library, Port Sanilac, Michigan, as of and for the year ended December 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of Sanilac District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Sanilac District Library, Port Sanilac, Michigan, as of December 31, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

May 15, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sanilac District Library's annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2006. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader may understand the Library financially as a whole. The Government-Wide Financial Statements provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The Fund Financial Statements look at the Library's operations in more detail than the Government-wide Financial Statements by providing information about the Library's most significant fund – The General Fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period.

This annual report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Library's operations on a full accrual basis which provides both long and short-term information about the Library's overall financial status.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

Reporting the Library as a Whole – Government-wide Financial Statements

The financial statements also include notes that explain some of the information and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information.

The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information about the Library as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The Statement of Net Assets included all of the Library's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

These two statements report the Library's net assets and how they have changed. Net assets, the difference between assets and liabilities, as reported in the statement of net assets, is one way to measure the Library's financial health or position. Over time, increases or decreases in the Library's net assets, as reported in the Statement of Activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the library's goal is to provide services to our patrons, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided to assess the overall health of the Library.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes, Penal Fines and unrestricted State Aid finance most of these activities.

Table 1 provides a summary of the Library's net assets as of December 31, 2006. This Analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34). The following table shows key financial information in a condensed format.

Condensed Financial Information

TABLE 1

	December 31,	
	2006	2005
ASSETS		
Current assets	\$ 154,847	\$ 155,106
Capital assets	268,512	278,942
Total Assets	<u>\$ 423,359</u>	<u>\$ 434,048</u>
LIABILITIES		
Deferred property taxes	\$ 122,600	\$ 116,141
Due to Sanilac County	10,747	16,120
Total Liabilities	<u>133,347</u>	<u>132,261</u>
NET ASSETS		
Investment in general capital assets	268,512	278,942
Unrestricted	7,503	11,306
Restricted	13,997	11,539
Total Net Assets	<u>\$ 290,012</u>	<u>\$ 301,787</u>

The results of 2006 operations for the Library as a whole are reported in Table 2 - Statement of Activities, which shows the sources of revenue.

TABLE 2

	For Year Ended December 31,	
	2006	2005
Program Revenues:		
Charges for services	\$ 12,502	\$ 11,091
Operating grants and contributions	8,059	5,895
Total Program Revenues	20,561	16,986
Program Expenses	(177,244)	(178,203)
Net Program Expense	(156,683)	(161,217)
General Revenues:		
Taxes:		
County	32,068	32,226
District	84,073	84,358
State aid	3,283	3,953
Penal fines	18,745	18,554
Investment earnings	1,161	978
Other:		
Miscellaneous	899	879
USF rebates	4,679	556
Insurance claim	-	3,058
Total General Revenues	144,908	144,562
Change in Net Assets	<u>\$ (11,775)</u>	<u>\$ (16,655)</u>

- Sanilac District Library is reporting financial statements that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense.
- As a result of this change, the Library reports net assets of \$290,012 this year on a full accrual basis, as compared to fund balances of \$26,873 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2006, total tax collections were \$116,858. This represents approximately 71 percent of total revenue.
- Salaries and fringe benefits such as Social Security and Medicare are the largest overall expenditure of the Library. For 2006, this expenditure was \$88,823, representing 53 percent of the Library's total expenditures.
- Library materials representing 20 percent of the Library's total expenditures cost \$34,058 in 2006.
- The Library expended \$10,715 for capital assets which included a new copy machine, computer hardware, equipment and furniture.
- Total expenditures for the entire year under the modified accrual method of accounting were \$166,815.

Reporting the Library's Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the Library funds, not the Library as a whole. Some funds are required to be established by State law. The Library establishes funds to help control and manage money for particular purposes and to show that it is meeting its legal responsibilities for using certain taxes, grants and other income. The Library uses the following accounting approach: Governmental fund reporting focuses on showing how money follows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that may be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

Analysis of the Library's General Fund is included on page nine in the first column of the respective statements. The fund column provides detailed information about the General Fund, not the library as a whole. The Library Board has the authority to create separate funds to help manage money for specific purposes and to maintain accountability for certain activities such as property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund was \$26,874 for the year. This represents unspent revenue greater than expenses.

Library Budgetary Highlights

Sanilac District Library's budget is prepared according to Michigan Law. Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year.

Revenues:

- The library continues to be dependent upon Penal Fine revenues. Penal fines continue to be unstable sources of revenue impacted by many factors including economic effects on tourism, decisions on judgments by the courts, the number of police assigned to road patrols and legislative action take to designate and/or redefine penal fines to other fees.
- State Aid, while it is written into Michigan law to give libraries \$1 per capita, is budgeted to be only \$0.72 per capita. State Aid enables the Library to continue membership in the White Pine Library Cooperative. Half of the State Aid revenue is the required fee for membership dues. Membership in the Cooperative provides statewide delivery, interlibrary loan, continuing education and discounts to various vendors for library equipment, materials and supplies. The Library must meet State Aid Guidelines in order to qualify for State Aid.
- The Library will continue to seek grant funding and donations for various projects.
- The Library's board approved a total revenue budget of \$170,000 for 2006.

Expenditures:

- The budget was adjusted to cover the unexpected expense of repairing the parking lot. The posts next to the entryway were irreparably damaged by an unidentified car. The Library Board decided to remove the posts, widen the entryway, extend the culvert, cover the area with gravel and place large rocks for landscaping at a total cost of \$1,535.
- The budget was adjusted to take advantage of a special offer to purchase Info Center automation system at the discounted price of \$999. The regular full cost would have been \$5,000.
- The budget was adjusted to purchase a new \$10,000 copy machine for a sale price of \$2,950.
- After the building expansion and renovation project was completed in 2001, the Library Board approved a Long Term Maintenance Plan to set aside a total of \$35,000 by 2017 for the repair and/or replacement of the air conditioner, carpet, furnace, parking lot and roof. The library purchases a \$2,000 Certificate of Deposit annually. The balance of the combined CDs plus interest at the end of the 2006 fiscal year was \$13,997.
- In 2006, the Library Board decided to raise the total goal of the Long Term Maintenance Plan by \$5,000 as an Opportunities Fund.
- Universal Service Funds provided a 70% rebate for telephone service and Internet access. This discount was applied as a credit on 2006 charges.
- Two public access computers were purchased to replace outdated models as per the Library's Technology Plan.
- Sanilac County overpaid the 2003 delinquent property taxes by \$21,494. The Library has made arrangements with the Sanilac County Treasurer to repay this amount in a series of four payments of \$5,373 over a period of four years. As of December 31, 2006, \$10,747 has been paid.
- The Library's net assets were \$290,012 as of December 31, 2006.
- The Library ended its fiscal year with a remaining fund balance of \$26,874.
- The Library's board approved a total expenditure budget of \$180,000 for 2006.

Budget Notes for the next fiscal year

- The 2006 Budget was determined by the previous year's revenue receipts and actual expenses.
- The third payment of \$5,373 will be made to Sanilac County in June 2007.

Capital Assets

At the end of the 2006 fiscal year, the Library had invested \$9,180 in capital outlay of computers, furniture and equipment and the Library added \$29,106 in new collection items consisting mainly of books, audio books, movies and magazines.

The Library had a total of \$268,512 invested in capital assets, including art, the building, computers, equipment, furniture, library materials and land. As a result of GASB 34 implementation, the library adopted a capitalization policy of \$500.

<u>Capital Assets Summary</u>	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Assets not being depreciated: Art & Land	\$ 23,200	\$ 23,200
Building & building improvements	264,070	262,535
Furniture & Equipment	147,843	139,362
Library materials	2,748	2,049
Totals at Historical Cost	<u>437,861</u>	<u>427,146</u>
Less: Accumulated Depreciation	<u>(169,349)</u>	<u>(148,204)</u>
Capital Assets - Net	<u><u>\$ 268,512</u></u>	<u><u>\$ 278,942</u></u>

Debt Administration

Long-term liabilities consisted of a payable due to Sanilac County representing an overpayment on the 2003 delinquent property taxes. See note 5 for further details

Scheduled maturities of the long-term liabilities at December 31, 2006, are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2007	\$ 5,373
December 31, 2008	5,374
Total Scheduled Maturities	<u><u>\$ 10,747</u></u>

Millage Rates

- In August 2004, the voters of Sanilac County approved a four year county wide millage renewal of .2 mills to be distributed to the eight libraries in Sanilac County.
- A District Library Millage is levied to residents of the Carsonville – Port Sanilac School District and Sanilac Township to support the operating budget. The original millage rate of 0.625 was authorized by election on June 14, 1999. The difference between the authorized and levied rate is due to the Headlee Override. This millage expires on December 31, 2008.
- The 2006 Tax Rate Request was 0.5734 mills. The Millage Reduction Fraction was 0.9884. These funds were collected in 2006. The taxable value of the library district increased enough to prevent significant loss of revenue.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Library Director at Sanilac District Library, 7130 Main Street, P.O. Box 525, Port Sanilac, MI 48469.

BASIC FINANCIAL STATEMENTS

**SANILAC DISTRICT LIBRARY
BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	General Fund, Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets- Full Accrual
ASSETS			
Cash and cash equivalents (Note 1 and 3)	\$ 17,985	\$ -	\$ 17,985
Investments (Note 1 and 3)	13,997	-	13,997
Taxes receivable	122,600	-	122,600
Rebate receivables	265	-	265
Capital assets, net (Note 4)	-	268,512	268,512
Total Assets	<u>\$ 154,847</u>	<u>\$ 268,512</u>	<u>\$ 423,359</u>
LIABILITIES			
Deferred property taxes	\$ 122,600	\$ -	\$ 122,600
Long-term liabilities: (Note 5)			
Due within one year	5,373	-	5,373
Due in more than one year	-	5,374	5,374
Total Liabilities	<u>127,973</u>	<u>5,374</u>	<u>133,347</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Undesignated	12,877	(12,877)	-
Designated for long-term maintenance (Note 6)	13,997	(13,997)	-
Total Fund Balances	<u>26,874</u>	<u>(26,874)</u>	<u>NONE</u>
Total Liabilities and Fund Balances	<u>\$ 154,847</u>	<u>\$ (21,500)</u>	<u>133,347</u>
Net Assets:			
Invested in capital assets - Net of debt		\$ 268,512	268,512
Unrestricted		21,500	21,500
Total Net Assets		<u>\$ 290,012</u>	<u>\$ 290,012</u>

The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Recreation and cultural	<u>\$ 177,244</u>	<u>\$ 12,502</u>	<u>\$ 8,059</u>	<u>\$ (156,683)</u>
General Revenues:				
Taxes:				
County				
District				32,068
State aid				84,073
Penal fines				3,283
Investment earnings				18,745
Other:				1,161
Miscellaneous				899
Rebates				4,679
Total general revenues				<u>144,908</u>
Change in net assets				(11,775)
Net assets - beginning of year, as previously stated			417,928	
Prior period adjustment (Note 8)			<u>(116,141)</u>	
Net assets at beginning of year - restated				301,787
Net assets - end of year				<u>\$ 290,012</u>

The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

REVENUES:

Taxes	
County	\$ 32,068
District	84,073
State aid	3,283
Penal fines	18,745
Charges for services	12,502
Interest	1,161
Donations	5,879
Miscellaneous	900
USF rebates	4,678
Grants	2,180

TOTAL REVENUES	165,469
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EXPENDITURES:

Recreation and culture:	
Audio visual materials	8,163
Books	20,595
Building and equipment maintenance	1,778
Capital outlay	10,715
Collection maintenance	2467
Communications	1,524
Contractual services	3,725
Dues	2,049
Education	160
Insurance	3,445
Insurance - W/C	310
Magazines	2,134
Miscellaneous	6
Printing	169
Professional fees - audit	1,750
Programs	1,083
Supplies	2,157

(Continued)

**SANILAC DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

EXPENDITURES: (Continued)

Technology	\$ 9,984
Transportation	665
Utilities	5,113
Wages and payroll taxes	88,823

TOTAL EXPENDITURES	166,815
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EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,346)
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OTHER FINANCING SOURCES (USES):

Payment to Sanilac County on overpayment	(5,373)
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TOTAL OTHER FINANCING SOURCES (USES)	(5,373)
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NET CHANGE IN FUND BALANCE	(6,719)
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FUND BALANCE - BEGINNING OF YEAR	33,592
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FUND BALANCE - END OF YEAR	\$ 26,873
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The accompanying notes to financial statements are an integral part of this statement.

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity

The Sanilac District Library is located on the east edge of Sanilac County, Michigan at 7130 Main Street, Port Sanilac, Michigan. Carsonville-Port Sanilac Schools in conjunction with Sanilac Township entered into an agreement to create the Sanilac District Library. The District Library is a legally separate organization established to provide library services to residents of the Carsonville-Port Sanilac School district and Sanilac Township residents. Effective February 25, 1998, the Sanilac District Library was recognized by the Library of Michigan as a legally established district library pursuant to the District Library Establishment Act, 1989 PA 24.

The district consists of the entire geographic area of Sanilac Township as well as the entire geographic boundaries of the Carsonville-Port Sanilac School district. It is governed by a seven (7) member board. The Board is empowered to propose and levy upon approval of the electors a tax for support of the District Library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988. The District Library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The County does levy a tax for the District Library; however, the County does not hold title to any of the District Library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the District Library. The district has a calendar year end of December 31st.

The accounting policies of Sanilac District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Sanilac District Library.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

**NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES: (Continued)**

B. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type activities. The Library does not currently have any business-type activities.

Governmental Fund

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the Library's revenue sources are considered both measurable and available at year end.

Expenses/Expenditures:

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. An allocation of cost, such as depreciation, is not recognized in governmental funds.

F. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Post-employment Benefits

The Library provides no post-employment benefits to past employees.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

H. Budgets and Budgetary Accounting

The Library normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain comments.
3. Prior to January 1, the budget is legally enacted through board approval.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Library Board. The Library develops its budgets using line-items for revenues and expenditures. It adopts its budget at the total revenue and total expenditure level.

Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and consist only of those amounts contained in the formal budget approved and amended by the Library Board. The Library does not utilize encumbrance accounting.

I. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Library are considered to be cash equivalents.

J. Investments

Investments with an initial maturity of more than three months are reported as investments.

K. Receivables

Property tax receivables are shown as gross amounts since uncollectible personal property taxes are undeterminable at year end and County settles for all real property taxes.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K. Receivables (Continued)

Property tax is levied each December 1, on the Taxable Value of the District Library's personal and real property. It is the policy of the Board to recognize revenues from the current property tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing library operations.

L. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$500 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Computers & software	5 years
Equipment	5 years
Furniture	7 years
Land Improvements	15 years
Library Materials	5 years
Building	50 years

The Library has a collection of art work and historical memorabilia presented for public exhibition and education that is being preserved for future generations. The collection is not capitalized or depreciated as part of capital assets.

(Continued)

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

M. Deferred Revenue

Property taxes levied in 2006 for the 2007 operations are recognized as deferred revenue.

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Property Taxes:

Properties are assessed as of December 31, and the related property taxes become a lien on December 1st of the following year. These taxes are due on February 15, with the final collection date of February 28, before they are added to the County tax rolls.

The delinquent real property taxes of the District Library are purchased by the County of Sanilac. The County sells tax notes, the proceeds of which are used to pay the District Library for these property taxes. Under both the modified accrual and full accrual basis, the Library's tax revenues are recognized in the year following the December 1st levy date.

The 2006 taxable value of the Library's district is \$158,319,802. The mills levied per \$1,000 of taxable value are as follows:

Library-general operating	<u>.5734</u>
Total	<u>.5734</u>

On June 14, 1999, the District's constituents passed an operating millage for a period not to exceed 10 years in order to provide operating funds.

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The General Fund's fund balance and the net change in fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 26,873
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund. Capital assets at year end consist of:	
Capital asset cost	\$ 437,861
Capital asset accumulated depreciation	<u>(169,349)</u>
	268,512
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. Long-term liabilities at year end consist of:	
Due to Sanilac County	(5,373)
Total Net Assets - Full Accrual Basis	<u>\$ 290,012</u>
Net Change in Fund Balances - Modified Accrual Basis	\$ (1,346)
Total change in net assets reported for governmental activities in the statement of activities is difference because:	
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current year depreciation expense	\$ 21,144
Capital outlays reported in the governmental fund	<u>10,715</u>
Net differences	(10,429)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	
Change in Net Assets of Governmental Activities - Full Accrual Basis	<u>\$ (11,775)</u>

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 3 - DEPOSITS AND INVESTMENTS:

Michigan Compiled Laws, Section 129.91(Public Act 20 of 1943, as amended), authorizes a local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library's deposits are in accordance with statutory authority.

Custodial Credit Risk-Deposits. Credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2006 all of the Library's bank deposits were covered by FDIC Insurance:

Uninsured and uncollateralized	\$ NONE
Total	<u><u>\$ NONE</u></u>

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 4 – CAPITAL ASSETS:

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Primary Government				
Capital Assets Not Being Depreciated				
Land	\$ 20,500	\$ -	\$ -	\$ 20,500
Art	2,700	-	-	2,700
Total Capital Assets Not Being Depreciated	<u>23,200</u>	<u>None</u>	<u>None</u>	<u>23,200</u>
Capital Assets Being Depreciated				
Computers & software	51,447	5,531	-	56,978
Equipment	23,937	2,950	-	26,887
Furniture	63,978	-	-	63,978
Land Improvements	6,880	1,535	-	8,415
Library Materials	2,049	699	-	2,748
Building	255,655	-	-	255,655
Total Capital Assets Being Depreciated	<u>403,946</u>	<u>10,715</u>	<u>None</u>	<u>414,661</u>
Less Accumulated Depreciation for:				
Computers & Software	33,543	6,581	-	40,124
Equipment	23,045	1,138	-	24,183
Furniture	41,733	7,783	-	49,516
Land Improvements	1,606	518	-	2,124
Library Materials	2,049	12	-	2,061
Building	46,228	5,113	-	51,341
Total For Accumulated Depreciation	<u>148,204</u>	<u>21,145</u>	<u>None</u>	<u>169,349</u>
Net Capital Assets Being Depreciated	<u>255,742</u>	<u>(10,430)</u>	<u>None</u>	<u>245,312</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 278,942</u>	<u>\$ (10,430)</u>	<u>\$ None</u>	<u>\$ 268,512</u>

**SANILAC DISTRICT LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

NOTE 5 – LONG-TERM LIABILITIES:

In June of 2004, the Sanilac District Library received its delinquent tax payment from Sanilac County. However, the County mistakenly sent the Library a check representing the Sanilac Intermediate School District's 2003 delinquent property taxes, whereas, it should have sent a check representing Sanilac Township's delinquent property taxes. The mistake meant an overpayment to the District Library of \$21,493. Because the mistake was not detected until early 2005, most of the monies had already been spent. The District Library and Sanilac County have agreed on a repayment schedule. The District will pay back the overpayment in four equal payments over a four year period.

Long-term liabilities are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Due to Sanilac County	<u>\$ 16,120</u>	<u>\$ -</u>	<u>\$ 5,373</u>	<u>\$ 10,747</u>	<u>\$ 5,373</u>

NOTE 6 – DESIGNATED FOR LONG-TERM MAINTENANCE:

After the building expansion and renovation project was completed in 2001, the Library Board approved a Long Term Maintenance Plan to set aside a total of \$35,000 by 2017 for the repair and/or replacement of the air conditioner, carpet, furnace, parking lot and roof. The library purchases a \$2,000 certificate of deposit annually. The balance of the combined certificates of deposit at December 31, 2006 was \$13,997.

NOTE 7 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library continues to carry commercial insurance for risks of loss. The district does not provide employee health or life insurance coverage. The district does provide workers compensation insurance coverage.

NOTE 8 – PRIOR PERIOD ADJUSTMENT:

Beginning net assets/fund balance was decreased by \$116,141 for a correction to the recognition of deferred revenue for prior years.

REQUIRED SUPPLEMENTARY INFORMATION

**SANILAC DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes				
County	\$ 31,300	\$ 32,600	\$ 32,068	\$ (532)
District	86,850	85,400	84,073	(1,327)
State aid	3,500	3,300	3,283	(17)
Penal fines	18,500	19,000	18,745	(255)
Charges for services	13,150	14,200	12,502	(1,698)
Interest	1,000	1,300	1,161	(139)
Donations	9,500	7,000	5,879	(1,121)
Miscellaneous	200	200	900	700
Grants and rebates	6,000	7,000	6,858	(142)
TOTAL REVENUES	<u>170,000</u>	<u>170,000</u>	<u>165,469</u>	<u>(4,531)</u>
EXPENDITURES:				
Recreation and culture:				
Audio visual materials	6,000	8,300	8,163	137
Books	25,000	23,000	20,595	2,405
Maintenance	2,500	3,500	1,778	1,722
Capital outlay	11,000	19,000	20,699	(1,699)
Collection maintenance	2,150	2,500	2,467	33
Communications	2,400	1,600	1,524	76
Continuing education	500	200	160	40
Contractual services	4,000	3,600	3,725	(125)
Dues	2,000	2,100	2,049	51
Insurance	3,900	3,800	3,755	45
Long-term maintenance	2,000	2,000	-	2,000
Magazines	1,400	2,200	2,134	66
Miscellaneous	100	-	6	(6)
Office supplies	2,150	2,600	2,157	443
Printing	300	200	169	31
Professional fees - audit	1,700	1,750	1,750	-
Programs	2,000	1,100	1,083	17

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
EXPENDITURES: (Continued)				
Transportation	\$ 500	\$ 700	\$ 665	\$ 35
Utilities	5,000	5,200	5,113	87
Wages and payroll taxes	90,000	91,250	88,823	2,427
TOTAL EXPENDITURES	<u>164,600</u>	<u>174,600</u>	<u>166,815</u>	<u>7,785</u>
Excess of Revenues Over (Under) Expenditures	<u>5,400</u>	<u>(4,600)</u>	<u>(1,346)</u>	<u>3,254</u>
OTHER FINANCING SOURCES (USES):				
Payment to Sanilac County on overpayment (Note 5)	(5,400)	(5,400)	(5,373)	27
Total Other Financing Sources (Uses)	<u>(5,400)</u>	<u>(5,400)</u>	<u>(5,373)</u>	<u>27</u>
Net Change in Fund Balance	<u>None</u>	<u>(10,000)</u>	<u>(6,719)</u>	<u>3,281</u>
Fund Balance, January 1	33,592	33,592	33,592	-
Fund Balance, December 31	<u>\$ 33,592</u>	<u>\$ 23,592</u>	<u>\$ 26,873</u>	<u>\$ 3,281</u>